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EXPE - Q1 2015 Expedia Inc Earnings Call

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CORPORATE PARTICIPANTS

Alan Pickerill *Expedia Inc - VP of IR*

Dara Khosrowshahi *Expedia Inc - President and CEO*

Mark Okerstrom *Expedia Inc - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Justin Post *BofA Merrill Lynch - Analyst*

Tom White *Macquarie Research - Analyst*

Brian Fitzgerald *Jefferies & Co. - Analyst*

Mark Mahaney *RBC Capital Markets - Analyst*

Naved Khan *Cantor Fitzgerald - Analyst*

Douglas Anmuth *JPMorgan - Analyst*

Eric Sheridan *UBS - Analyst*

Ross Sandler *Deutsche Bank - Analyst*

Ron Josey *JMP Securities - Analyst*

Michael Millman *Millman Research Associates - Analyst*

Kevin Kopelman *Cowen and Company - Analyst*

Heath Terry *Goldman Sachs - Analyst*

Brian Nowak *Nomura Securities Intl - Analyst*

Aaron Kessler *Raymond James - Analyst*

PRESENTATION

Operator

Good day and welcome to the Expedia Q1 2015 earnings call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Alan Pickerill, Vice President Investor Relations at Expedia. Please go ahead, sir.

Alan Pickerill - *Expedia Inc - VP of IR*

Thank you very much. Good afternoon, everybody, and welcome to Expedia Inc's financial results conference call for the first quarter ended March 31, 2015. I'm pleased to be joined on the call today by Dara Khosrowshahi, Expedia's CEO and President, and Mark Okerstrom, CFO and EVP of Operations.

The following discussion, including responses to your questions, reflects management's views as of today, April 30, 2015 only. We do not undertake any obligation to update or revise this information.

As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate, or similar statements. Please refer to today's press release and the Company's filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You'll find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today on our earnings release, which is posted on the Company's IR website at IR.expediainc.com. I encourage you to periodically visit our investor relations site for important content, including today's earnings release and an updated investor deck.

Finally, unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense, technology and content expense, excludes stock-based compensation and depreciation expense. All comparisons on this call will be against our results for the comparable period of 2014.

With that, I'll hand the call over to Dara.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Thanks, Alan. Expedia is off to a strong start this year, and we continue to be confident in our ability to deliver another year of solid results in a healthy travel environment. Aside from the worsening impact of FX translation on our results, our expectations for what we can deliver this year haven't changed.

I'm particularly happy with our unit growth this quarter -- global room nights up 32%, air tickets up 18%, and car rental days up over 35%. All representing shared gains in the overall travel market.

The major brands in our core OTA segment are executing well and delivering good results. Revenue growth in the first quarter was driven by organic growth at Brand Expedia, Hotels.com, and EAN, as well as nice contributions from Travelocity and Wotif.

I'm also pleased that the pace of hotel acquisition has accelerated in 2015. Excluding eLong inventory, we added almost 14,000 hotels in the first quarter, which represents a pace of acquisition more than twice as fast as the fourth quarter of last year. We expect to continue to grow our market management team and significantly increase our rate of innovation and supplier technology to drive ongoing acceleration of hotel property additions.

The migration of the Wotif site onto the Expedia platform is substantially complete, a process that has taken less than six months end to end. We had many an employee give up late nights with their friends and family to make this happen, and we're thankful to all of the contributing Expedia Inc employees, especially our new colleagues on the Wotif team, for their efforts.

Wotif is not yet a meaningful contributor to the bottom line, due to negative FX trends, purchase accounting adjustments, and the elimination of certain consumer booking fees. However we're pleased to have broadened Australian consumers' access to our global inventory. We're seeing early positive conversion trends as a result of our integration programs and expect the business to contribute more to profitability as we move through 2015 and in to next year.

We've also welcomed the Travelocity marketing teams into our business and are making good progress on migrating tools and approaches. In the near term, we plan to ramp up selling and marketing spend to build momentum for this brand, which is likely to put some pressure on adjusted EBITDA contribution from Travelocity this year. We are seeing double-digit transaction growth year-over-year and are pleased to see the strength of the Travelocity brand in action.

I'm sure you're all interested in an update on the announced Orbitz transaction. The DOJ made a second request, and we're cooperating with them to make sure they have the information they need to enable them to complete their review by the end of the year. We believe the global travel market is huge and competition is fierce and that the transaction will benefit both competition and consumers. Beyond that, we don't have any additional information to share at this time.

Trivago continued to see very strong growth, generating stand-alone revenue of $119 million in the first quarter and $449 million on a trailing, 12-month basis. We continue to aggressively invest profits from more developed markets to drive brand recognition and global expansion in newer markets. Of particular note, trivago continues to gain in size and strength in the US, which now represents their largest market in terms or revenue generated.

As a result of the increased investment that we mentioned last quarter, eLong drove an acceleration of year-over-year room night growth in the first quarter compared to the growth rate in Q4 2014. Efforts in mobile and supply additions are bearing fruit, with mobile growing triple digits overall and representing more than 65% of eLong brand room nights for the quarter. We're very supportive of the eLong management team, are pleased to see our investment start to bear fruit, and remain confident that we can create real shareholder value through this asset.

Lastly, Egencia saw very good year-over-year unit growth this quarter, essentially consistent with the pace of growth in Q4 and with strength in both the US and Europe. Our new product introductions, such as our iPad app, have been met by enthusiasm by our existing and potential clients.

Egencia continues to win new clients at an impressive rate, on the back of its industry-leading technology. And we remain confident in its ability to continue to make share gains in the large and attractive managed corporate travel segment.

Note that Egencia has a big European business and thus, is disproportionately impacted by FX headwinds. You can see that impact reflected in their reported gross bookings and revenue growth.

In closing, while we're pleased with our early momentum, the year is young. And as usual, we have plenty of challenges to navigate. We're clear about our strategy and are fully in execution mode.

With that, I'll hand it over to Mark.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Thanks, Dara.

Overall themes for Q1 performance are very similar to what we saw in the fourth quarter. Once again, we saw strong performance from our core OTA segment, trivago, and Egencia offset by negative FX trends and ongoing headwinds on unit economics. As expected, the eLong team continued investing aggressively in China, which did put pressure on the consolidated adjusted EBITDA. Top-line growth was again driven by solid unit growth across all major geographies.

Room night growth accelerated for all of our major brands, relative to Q4 growth rates, leading to global room night growth of 32% year-over-year. Domestic room nights grew 23% in Q1, while international room nights were up 41%.

We did get a four percentage point tailwind to global room night growth from the inorganic impact of Wotif and the consolidation of the AirAsia joint venture. Note that we also comped over the rollout of the Travelocity commercial agreement during the first quarter. So Q2 will be our first clean comp for that business.

Revenue per room night was down 13.6% this quarter, while ADRs were down 2.5%. Roughly half of the decline in revenue per room night this quarter was driven by the negative impact of foreign currency. The other half included the impacts of the deliberate reductions in hotel margins to accelerate our global build-out of hotel room inventory and availability, as well as efforts to drive consumer engagement and repeat business through our loyalty programs and other incentives. These are very consistent with the factors we have discussed in the past.

Air revenue grew 9% on ticket growth of 18%, partially offset by a decline in revenue per ticket of 7%. Ticket volume growth decelerated this quarter as we comped over the rollout of the Travelocity commercial deal in Q1 of last year. This headwind was partially offset by a two percentage point tailwind from consolidation of the AirAsia joint venture.

On a normalized basis, air ticket growth excluding Travelocity and AirAsia accelerated nicely in the first quarter. Revenue per ticket was down as result of the foreign currency headwind, geographic mix, and the renewal of certain airline deals in 2014.

Our advertising and media business, which is made up of trivago and our media solutions group, has become quite large and is growing fast. On a trailing, 12-month basis, we generated over $0.5 billion of net advertising and media revenue, up 35% year-over-year.

For the quarter, advertising and media revenue grew 23%, net of inter-Company amounts. We also continued to see healthy contributions from our car and insurance products.

On the expense side, excluding eLong, we saw expense leverage across cost of revenue, selling and marketing, people costs, and technology and content expense. Direct selling and marketing expense grew faster than revenue, as expected.

As was the case for Q4, general administrative expenses also grew faster than revenue, due primarily to about $8 million of due diligence and other deals costs, without which, the growth would have been more in line with previous quarters and leveraging nicely. The net result in the quarter was adjusted EBITDA growth of 25%, excluding eLong, and a decline of 5% year-over-year, including eLong.

Note that adjusted earnings per share was negatively impacted this quarter by an unfavorable effective tax rate. As we mentioned on the last call, due to eLong losses for which we are not recording a tax benefit, we are forecasting an elevated effective tax rate for the full year.

Specifically, assuming eLong losses continue at this quarter's level or higher, we expect the tax rate to be in the mid 30% range for the full year. For illustrative purposes, had we applied that rate to this quarter's results, adjusted EPS would have improved by approximately $0.08 per share.

In terms of financial expectations for full-year 2015, as Dara mentioned, with the exception of foreign currency trends working against us, we're happy with our year-to-date performance and remain optimistic about the year. As such, we are maintaining our adjusted EBITDA guidance for Expedia, excluding eLong, in line with our prior guidance range of 10% to 15%.

Note that since the date of our Q4 call, we estimate that FX trends have worked against us by another approximately 200 basis points of full-year adjusted EBITDA growth. And as such, we are a bit more cautious about where we will finish in this range.

With respect to the shape of the year -- again specifically for Expedia, excluding eLong -- I'd like to reiterate that we expect the vast majority of our adjusted EBITDA dollar growth to come in the back half of the year. As we move in to the balance of the year, we're expecting a deceleration in revenue growth on headwinds from lapping the Travelocity implementation, which are only partially offset by tailwinds from recent acquisitions. And our organic revenue growth rate remains subject to the unit economic pressures, which we have discussed.

On the expense side, we continue to expect elevated technology and content expense growth, as we digest recent acquisitions and invest behind further fortifying our core technology and infrastructure stack. In the second quarter specifically, we'll have added pressure on adjusted EBITDA growth, as we ramp selling and marketing expense to drive summer season revenue, a good portion of which will not be recognized until Q3 and beyond.

Now, moving away for guidance for Expedia, excluding eLong, to focus specifically on guidance for eLong standalone. ELong's adjusted EBITDA loss of $33 million in Q1 is indicative of the size and scale of the competitive efforts and investments required in that market. We expect the quarterly losses for eLong to be as large, if not larger, than the first-quarter loss on a go-forward basis.

ELong is a well-capitalized, publicly listed Company with a distinct public market valuation. And we continue to encourage analysts and investors to model, analyze, and report on eLong separately and to value our eLong position on a standalone basis.

With that, let's move to Q&A. Operator, will you please remind participants how to queue for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Justin Post, Merrill Lynch.

Justin Post - *BofA Merrill Lynch - Analyst*

Thank you.

It looks like EBITDA for Expedia, ex eLong, came in better than you guided a quarter ago. Just wondering, do you feel better about your organic trends, or were there any one-time benefits in this quarter? Certainly, your room nights accelerated.

Secondly, can you maybe help us a little bit on the factors that will drive EBITDA between the core growth, the Travelocity, Air Asia, and Wotif? Just walk us through how those will be plus and minuses this year. Thank you.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Sure. In the first quarter, we did have good strength in the core business. It was a little bit better than our expectations.

But as a reminder, Q1 is a super small quarter. We don't manage the business by quarter. And so from quarter to quarter, we can have the shift of some ad spend. And certainly, that happened in the first quarter.

With respect to factors that will drive core EBITDA, excluding eLong, on a go-forward basis, really, the big driver there is strength in the core OTA business. This business lives or dies by the strength of Brand Expedia and Hotels.com, EAN. And really, that's the big driver.

We'll get some help from Travelocity and Wotif. But as Dara mentioned in his remarks, we don't expect Wotif, for example, to be a big driver or a driver, really, until the back half of the year. And with our plans for ramping up sales and marketing to build momentum at Travelocity -- in addition to the momentum they've already got -- we do expect, again, that benefit to largely come in the back half of the year, as well.

Justin Post - *BofA Merrill Lynch - Analyst*

Great. Thank you for taking my question.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

You're welcome. Next question.

Operator

Tom white, Macquarie.

Tom White - *Macquarie Research - Analyst*

Great. Thanks for taking my question.

I guess, if I look at the take rate in your core OTA segment, it looks like the declines on a year-over-year basis moderated a bit in the first quarter. Can you maybe talk a little bit how we should think about that over the next year or two?

Then, just a followup. EBITDA at trivago -- looks like there was a nice little EBITDA profit in the first quarter. Has that business scaled to a size where we can expect positive EBITDA in the first couple quarters of the year? If I recall, typically, they've generated the bulk of their EBITDA later in the year. Thanks.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Yes. So in the core OTA segment, we did see the model work. And again, we're not really managing this business to adjusted EBITDA margins. That's not the goal.

But we did see those margins level out quite nicely. And really, that's just the model and the target P&L working -- control on fixed costs and really driving as much marketing contribution as we can through that part of the business.

I would just caution everyone, again, that a quarter does not a business make. It's a highly seasonal business, and I think, particularly in Q1, it's hard to draw any conclusions.

In terms of trivago, we did have a nice profit in Q1. A few things driving that. One is that the business continues to perform very well, both in its core European markets, but also in the US. And the performance, at least on the revenue line, did exceed the expectations a bit in the first quarter.

And there's also with trivago, as you can imagine, given the amount of particularly television advertising spend that they do, they can also be heavily influenced from quarter to quarter by the timing of spend. And there was a bit of timing related goodness, if you will, in the first quarter, as well.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Tom, this is Dara.

In reference to your question as well, if you were asking about revenue margin and the comps, Q1 versus Q1, remember that last year, we were just ramping up Travelocity. So we were having bookings come in, and revenue was being recognized in Q2.

This year, we had bookings from Q4 staying in Q1. So we didn't have that negative revenue margin factor working this year. So it's really more of a comps issue more than any other fundamental issue, one way or the other.

Tom White - *Macquarie Research - Analyst*

Okay. That's helpful. Thank you.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

You're welcome. Next question.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Thanks, guys.

You said you've largely completed the migration of Wotif onto Expedia Platform. Was the cadence there as expected? I know you said you worked really hard at getting it done.

And then, can we extrapolate analogous timelines for integration -- Travelocity system and tools? And would Orbitz look the same if and when that occurs? Thanks.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Sure. As far as Wotif goes, it was, I'd say, a little bit better than expected. I think the team performed very well and really worked hard to get it done. And kudos to them.

Note that we moved over Wotif.com, but there are elements of the business, such as lastminute.au, Asia Web Direct, that haven't been fully migrated yet. So there is still some work ahead of us, although that work is also very much on a good track.

As far as Travelocity goes, the Travelocity migration in general is by no means simple. But it is simpler, in that the site has already been migrated.

Now, what we're doing is really wiring up the marketing systems, data, et cetera, so that the Travelocity team can work with the same analytical and marketing tool sets that we have available to our other brands. That work is moving along nicely and should be largely complete within the month.

As far as Orbitz goes, no real update, one way or the other. Obviously, we're in the middle of the DOJ process, so the amount of information we have and plans, et cetera, are not fully flushed out.

I would also remind you that the Orbitz business is a considerably more complicated business. There are a lot of different business lines -- Orbitz for Business, et cetera. So it's a more complex business.

And we think that some of the capabilities that the Orbitz business and team have are pretty impressive. So I think that it's going to be really taking the best of breed and combining some of what they do really well with some of what we do really well.

I think that one will probably be a longer process, and it deserves to be a longer process. But first, we have to get there with the DOJ.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

All right. Great. Thanks, guys.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Next question.

Operator

Mark Mahaney, RBC capital markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thanks. Two questions, please.

I think it was Mark -- you had said something about you were seeing ex eLong leverage in sales and marketing. Could you put some context around that for us and say whether we should expect to see leverage in sales and marketing, ex eLong, going forward?

And then secondly, Dara, could you talk about the impact on bookings -- the transactional impact on bookings on FX? And what I mean by that is, given these currency moves, are you just seeing the same demand, but European travelers are going to Greece instead of Manhattan?

Is that the kind of shift you're seeing? So the dollars are still there. Or are you actually seeing an impact on transactional demand? Like cutting back with vacation package spending? Thank you.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Mark, specifically, what I was referencing was sales and marketing people. Sales and marketing in total is deleveraging, and direct sales and marketing, specifically, is deleveraging.

And I would actually say, in terms of sales and marketing people, it's not something that we are expecting, nor planning to leverage on, particularly this year. One of the large components of that line item is our hotel market management team. And we are ramping up that team pretty aggressively and also lapping over some ramp-up last year.

Dara, do you want to take the other one?

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Yes. As far as the transactional impacts go, we are definitely seeing a very nice acceleration of US volumes to international markets. Those numbers were quite positive and continue to accelerate. So Q1 was a very strong quarter for Americans taking advantage of the strong dollar and exploring the world, so to speak.

And as far as international mix goes, we absolutely do see a higher mix of Europeans taking vacations in Europe. Our beach markets package business, for example, is up quite significantly.

And we're seeing the same thing with our Asian consumers. In general, we're seeing a mix shift to more local hotels, lower star hotels, which are typically more domestic-type travelers. Length of stay comes down a little bit.

But in general, those trends are, I'd say, positive for us because we are starting to penetrate into domestic and regional travel market, where, I would say, we are relatively underpenetrated. So the biggest negative factor we see, obviously, with international bookings, is the translation effect. And that's just a negative on revenue, and it's a negative on earnings. And it's something that, so far, we've been able to overcome, but it will be a challenge for us.

Mark Mahaney - *RBC Capital Markets - Analyst*

Okay. Thank you, Dara. Thank you, Mark.

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Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Naved Khan, Cantor Fitzgerald.

Naved Khan - *Cantor Fitzgerald - Analyst*

Thanks.

Can you talk a little bit about Hotwire and how that business is performing? And then, second question, on mobile. Can you provide some incremental insight into either bookings growth there or install base, in terms of apps that you have out there?

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Sure. As far as Hotwire goes, I've seen no significant trends to call out there. The business continues to be challenged.

Traffic trends are, in general, looking better and more positive. Revenue per transaction is challenged, especially on the hotel side, where we have had to take out some margin dollars in order to give consumers the kind of discounts that they expect in what's a strong market.

We are seeing -- we have moved over the Hotwire air path on to the Brand Expedia platform, and we're testing out the Brand Expedia retail hotel platform on Hotwire. And we're seeing some early positive signs there. So that makes us hopeful.

And we are launching a new ad campaign for Hotwire in Q2. It will be an EBITDA headwind, but we are quite positive about the ad campaign and expect it to introduce more consumers to the Hotwire brand, which we think, fundamentally, is still a good brand and a good product.

We're hopeful, but at this point, the business is still on a negative trend from a profitability basis, obviously, made up by some of our other brands.

As far as mobile goes, I'd say no necessarily incremental insight, one way or the other. It's the teams that are executing; they continue to execute.

Mobile app installs are on a nice trend for all of the brands. In general, mobile web for us, now, is growing at very significant levels. And we are expanding our mobile product as well.

So for example, car rental product is now available on the Expedia mobile app. Hotwire continues to improve its car rental product on the app as well.

So the app has turned into a really important channel for us, but it's more business than usual than anything. And of course, we're all excited about the Apple Watch, et cetera. We've got our presence there, as far as apps go, and we'll be tracking that and hopefully talking a bit more about that as we gather more data.

Naved Khan - *Cantor Fitzgerald - Analyst*

Okay, thanks.

And just a quick followup. With regards to investment in Decolar in Latin America, how does it affect your presence in that geography on a standalone basis?

Dara Khosrowshahi - *Expedia Inc - President and CEO*

It's not going to have any impact on us on a standalone basis. The Hotels.com team, as far as our owned and operated brands, has the strongest presence in South America. Brand Expedia got in a few years ago.

And Decolar and Despegar are -- it's our having a stake in a set of very strong brands -- the strongest brands in what's a very large marketplace. It's $100 billion plus marketplace -- the LatAm marketplace.

Obviously, going through some near-term difficulties, but we think long-term, it will be strategic. And the investment was about lining ourselves up with a great management team and a great brand.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Yes. I think the only thing I'd add to that is that Decolar, Despegar does have a great and growing supply base in Latin America. We do expect, at some point, here over the next year or so, to start sharing in inventory more actively and potentially getting access to that inventory. And I think that could definitely help our standalone prospects in the region, as well as help Despegar. Big win-win.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

And of course, we are powering the Despegar hotel business in the Americas and in international. And we think that volume will be a welcome addition to our hotel partners, especially, for example, in markets like New York and Miami.

Naved Khan - *Cantor Fitzgerald - Analyst*

Okay. Thanks.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Douglas Anmuth, JPMorgan.

Douglas Anmuth - *JPMorgan - Analyst*

Thanks for taking the question.

Two things -- first, just the room nights growth accelerating. So obviously, healthy here. Can you talk a little bit about how much loyalty programs are driving? And then also, to the extent that you continue to use lower hotel margins, as well?

Secondly, Mark, can you clarify on the 2Q sales and marketing spend, is there anything else that's different here than what you'd typically do during this busy quarter, beyond the pickup in Travelocity spend? Thanks.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Thanks for the question, Doug.

The loyalty programs, particularly the Hotels.com loyalty program, is a big factor and a growing factor, in terms of the volume of business that they're getting from that program. That obviously shows up as a contra-revenue line item, and you can back into rough numbers, based on some of our disclosures, in terms of impact on revenue per room night.

So that's a great piece of business, however. It's business that generally involves high spending, loyal customers who come through more direct channels, and ultimately, when we look through to the bottom line, we would say we definitely want more of that business as opposed to less of that business.

In terms of our hotel margins, there's certainly going to be an impact of lower hotel margins on room night growth. Of course, we have no idea what, in fact, that impact is.

But as a reminder, we are lowering our hotel margins to essentially just be competitive with the local market conditions. And that encourages new hotels to sign up with us and our existing hotels to give us more attractive inventory because they view us as a more attractive channel to distribute through. And in return, that gives our customers a much better product, essentially, and opens up different marketing channels for us.

So there's definitely a connection there. It's hard to draw it completely.

With respect to 2Q sales and marketing spend, as I mentioned, there was some timing shift between Q1 and Q2 -- a little bit at trivago and a number of other brands as well. Travelocity is going to be a factor. Wotif may also be a factor in the quarter.

Then, of course, you do definitely have the ordinary issue of, in a growing and particularly accelerating business, you have a mismatch between sales and marketing spend and revenue. And it can create some mismatches in profit from quarter to quarter.

Douglas Anmuth - *JPMorgan - Analyst*

Great. Thank you.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Thanks, Doug. Next question.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thanks for taking the question. Two, maybe.

One, on the property additions, I wanted to understand a little bit better there. Maybe some color on what drove the acceleration in property additions across all your brands and how you're thinking about that, from a global landscape, going out over the next one to two years.

And second, maybe on the marketing side -- coming at it from a different angle. The ROIs you're seeing from your marketing dollars today -- maybe how you see those evolving by channel, where you might be pushing in or maybe pulling some marketing spend back as you see those ROIs evolve, not only across channels, but maybe even across regions. Thank, guys.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Sure. As far as property additions go, listen, this is a part of the, I'd say, formula that we have been setting up. We knew that there would be an up front cost to hiring the head count, training the head count and the field sales force. And to some extent, we bore those costs last year.

Now, you're seeing a combination of those market managers being trained up and effective. We have improved and invested in our technology so that we can onboard hotels faster when we sign them up, and also linking up that onboarding to our marketing channels, especially our variable marketing channels, so that we can produce for the hotels that we've signed up even more quickly after sign-up.

So the acceleration was expected. And this is something that we continue to expect to see for the balance of the year. And as you know, there are thousands and thousands more hotels that we can wire up on a global basis. So we think this is just the beginning of a multi-year journey.

As far as marketing ROIs go, I would say that there hasn't been a significant shift one way or the other, as far as overall ROIs. We continue to, on variable channels, bid on the various channels, based on expected revenue from those channels.

Foreign exchange trends in US dollars has, in general, taken down the amount that we can bid, let's say, for foreign demand because average revenue per transaction is coming down in US dollar terms. But from an efficiency standpoint, we are just as aggressive as we have been in the past.

I'd say that some of the channel shift that we had seen in the past, over the two, three years of the variable channels growing as a percentage of our direct channels, some of that channel shift is slowing down a bit. Our variable channels continue to grow quickly, but our brand channels -- Mark made the comment on loyalty previously. The repeat part of our business is growing faster now than it was growing two, three years ago.

So the mix shift we talked to you previously is probably easing up a bit. That's not necessarily good or bad news because we always want to be able to allocate as much marketing money as we can efficiently to the variable channels. But it certainly is good to see the direct channels growing faster than they have been historically. And hopefully, it will keep going.

Eric Sheridan - *UBS - Analyst*

Thanks so much.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Ross Sandler, Deutsche Bank.

Ross Sandler - *Deutsche Bank - Analyst*

Hey, guys. Wouldn't be an Expedia quarter if I didn't ask the organic growth question. I'll just make it a tradition, here.

It seems like there's four things impacting the growth for ex eLong. There's Wotif; the second part of Travelocity, the acquired portion; Air Asia; and the negative $5 million from the restructuring.

Do I have those all right, A? And then B, can you walk us through the contribution to EBITDA, if at all, from those four in the quarter?

That's all. Thanks, guys.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Yes. Thanks for the consistency and the question, Ross.

The inorganic impact from acquisition this quarter was actually slightly negative. We had purchase accounting adjustments where we were unable to recognize pre-booked merchant revenue, essentially, that we required. And that happened at Wotif, Travelocity, as well as Air Asia.

I would then sort of lump in to that the $8 million of deal costs. And it puts it solidly into the negative.

So the story that you saw in Q1 was indeed an organic story. And, as we said in the prepared remarks and Dara mentioned subsequently, we don't expect there to be a significant tailwind on profitability, if you will, from Wotif and Travelocity, really until we move through the back part of Q2 and into the back part of this year. So our story this year, despite the headlines on acquisitions, very much is an organic story.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

And Q2 will have some more purchase accounting, as well. So Q2 won't be a quote-unquote clean quarter. And the second half, you'll see the EBITDA come through more cleanly.

Ross Sandler - *Deutsche Bank - Analyst*

Thanks, guys. Very helpful.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

You're welcome. Next question, please.

Operator

Ron Josey, JMP securities.

Ron Josey - *JMP Securities - Analyst*

Great. Thanks for taking the question.

I wanted to ask more of a higher level question, maybe to Dara, just talking about Expedia's overall core strategy, given the investments in the US, in Asia with Wotif and AirAsia, and LatAm with Decolar and Despegar. So I'm wondering if you think -- what else is needed here?

Maybe trivago is the answer in Europe, but do you think you need more things in Europe? Or now, you're in execution mode, given you've got so much supply? Thank you.

THOMSON REUTERS

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Yes. Listen, there is no quote-unquote need at this point. We're very happy with the portfolio brands that we have.

The core brands -- the Expedia, the Hotels.com, trivago, Egencia -- are global in nature. And essentially, we'll want to operate everywhere around the world with those core brands.

And we're complementing those core brands with some more local brands. The Travelocity brand is going to be a mostly US entity, and Wotif is going to be Australian entity, et cetera. The strategy for us is set.

We'll always be opportunistic from an acquisition standpoint. We definitely want to get bigger in the corporate travel segment, and we're doing so organically with Egencia. But we'll continue to look for acquisitions in that segment. We think it's a terrific segment, and we have a great team and a great technology.

But in general, we're very happy with our portfolio. And Mark and his corp dev team will continue to sniff out opportunity and strike when they see one.

Ron Josey - *JMP Securities - Analyst*

Great. Thank you.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Michael Millman, Millman Research Associates.

Michael Millman - *Millman Research Associates - Analyst*

Thank you.

Following up on some related questions about your accelerated new hotels, can you talk about to what extent you have a fear, as a middle man, being squeezed? And to what extent do you have fear of Amazon and Google and then maybe others getting involved?

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Listen, you always fear, to some extent, when you have entities like Amazon and Google somewhat involved in the business that you're in. You'd be stupid not to worry about it.

That said, Google has been in the travel business for a long time, and they have been a partner of ours for a long time. They certainly have market power, and the European entities are talking to them about that market power. And that's something that should be addressed.

But we are a middle man that adds value -- or a middle person that adds value. These are -- the hotel business is incredibly fragmented.

We're making global demand available to these hoteliers through our marketing channels. We think, on the technology side, we can add very significant value, as far as building great consumer experiences.

And at this point, we're seeing our transactional growth and unit growth accelerating. So from my standpoint, we are a middle person who is getting more valuable and certainly not getting squeezed.

Now that said, as we scale, and as the Internet becomes more ubiquitous, we do have to drive our cost of operations down. You are seeing that in our revenue margins. It's something that's tough to execute; it's tough financially.

But we've done it for a number of years, and the team understands the task at hand. And the lower we drive those margins, the harder we make it for third parties to get into our business.

Fat pigs get slaughtered, and I think that we're in pretty darn good shape. And we're going to get in better shape on a go-forward basis.

Michael Millman - *Millman Research Associates - Analyst*

Thank you.

And to touch on something -- maybe it's become a tradition -- on the car rental. To what extent in the US is the opaque business gone?

I mean, companies keep talking about not offering up any opaque. And to what extent can you offset that with non-opaque reservations? And to what extent are you seeing car availability now?

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Yes. I think that to say the opaque business is gone would be a giant exaggeration. But specific to the car rental business, the percentage of bookings that are opaque, as percentage of our overall bookings, are down on a year-on-year basis.

We are seeing an offset to that on the retail side. Our revenue per transaction on retail, in general, in car is lower than opaque. So that does provide a bit of a revenue headwind.

But we're making the adjustments. And in the end, we're about marketing product to our consumers however they want to consume that product. Sometimes it will be opaque, during certain cycles. Sometimes it will be retail, and we're making the adjustments that we need to.

Michael Millman - *Millman Research Associates - Analyst*

Great. Thanks very much.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Company - Analyst*

Thanks very much.

Could you give us an update on your thinking on vacation rentals? Do you think vacation rentals are an important market for Expedia to be in? If so, how are you addressing it? Thanks.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

Sure. Listen, I think vacation rentals are an important market. It's an important product in many markets.

As to whether it's important for Expedia to be in, that remains to be determined. We have a good relationship with Home Away.

We're actually pretty excited about adding their inventory on an international basis, especially in Europe, where that business, in general, or that product is a bit more popular. And we continue to test and learn with them, and we're hoping that we hit upon a vein and are able to really up our volume in the vacation rental side of the equation.

At this point, it's something that we're testing and learning, and we haven't quite hit that vein yet. So is it growing? Yes. But is it significant in our portfolio? Not yet, and we'd like it to be more significant, going down the line.

Kevin Kopelman - *Cowen and Company - Analyst*

Thank you.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Great. Thanks.

In some of the industry data that's come out over the last few months -- but even the last couple of days -- showing strength in ADRs in Europe, I'm curious how directly you see that impacting the business. As you look at the drivers, at least within your business behind that, whether that seems to be more a function of Europeans staying local, inbound traffic -- either from the US or Asia taking advantage of the currency -- would appreciate any insight you can share there.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Happy to, Heath.

Listen. Generally, I'd say that strength in ADRs is a great thing for our business. Now, as it relates to Europe right now -- of course, for us, being an US reported issuer, it's well offset by the FX impact, in terms of our results. But I think there are a few things that are possibly driving that.

We certainly are seeing, as Dara mentioned, more traffic going from the US into European destinations. We're also seeing more Europeans staying in Europe but then, also, staying in their local country. So you've essentially got everyone descending on Europe, and I think that's creating, obviously, more demand for the product.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

I'd also add that from an Egencia standpoint, we're seeing the European business spend actually pretty healthy. I think the weak euro is definitely a nice element for European business spend.

And again, from a translation basis, as Mark said, it doesn't look so good. But you talk to the Egencia local team, and other than, for example, Norway, which is being hit by the oil prices, they feel very good. And the business is doing quite well.

Heath Terry - *Goldman Sachs - Analyst*

As Europeans -- I guess, to the extent Europeans are staying local more, are you seeing -- and Americans are taking advantage of lower currency benefit -- are you seeing less travel into the US or an impact on the US side of the business at all?

Dara Khosrowshahi - *Expedia Inc - President and CEO*

The European volumes to the US are positive, but they're growing slower than US volumes into Europe and even US volumes into the US. Now -- and that's a key for us, which is US to US, even, is pretty strong.

The US consumer feels pretty good. Obviously, our businesses are gaining share.

The US to Europe is going very well. Europe to US is losing share, but still positive.

Heath Terry - *Goldman Sachs - Analyst*

Great. Thank you very much.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Brian Nowak, Morgan Stanley.

Brian Nowak - *Nomura Securities Intl - Analyst*

Great. Thanks for taking my questions.

The first one -- just to go back on the strong room night growth. You said accelerating across all four brands. Then you mentioned loyalty.

Any other factors you'd call out that's driving that acceleration? Are you seeing conversion change? Any other things you'd call out to drive the acceleration?

And then, the second one -- just on the lowering of the hotel margins to be more competitive. Can you just talk us through, a little bit, the strategy -- kind of process -- there?

Is it a situation where you were previously priced above the local player, and now you're coming in line with them? Are you undercutting the local player? Just run us through the strategy there.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Yes. As far as the room night growth and acceleration goes, the key here is that there's no magic bullet. It's the combination of a number of different activities going across the business and essentially, everybody doing their jobs well.

If you really want to simplify the core of room night growth, it's dependent on three factors -- how much traffic are you bringing in, how you're converting that traffic, and really what your repeat rate is. And the traffic growth for the businesses is healthy and, in general, has been either generally healthy and/or improving.

Conversion has -- continues to increase, both for Hotels.com and Expedia. And that is a better website in general -- more repeat customers and stronger supply, including the new hotels that we're adding on a local basis. So conversion is positive.

And then, repeat rate, in general, is positive as well, as a higher percentage of our bookings come from repeat customers. We're essentially going out, acquiring new customers, converting them to repeat customers through either their experience, which is a good experience, or through loyalty programs.

Then you rinse and repeat, and you use those profits to garner and acquire new customers. So it's all of those factors coming together to combine for a healthy room night.

Q1 was certainly a number we're happy with. And hopefully, we can keep our room night growth growing at healthy rates on a go-forward basis.

As far as the hotel margins go, in general, we were at higher levels than our competition, especially in Europe and some of the Asia Pacific markets. And we've moved our margins to be more competitive with some of the local players there. And as we've moved the margins to be more competitive, the local hoteliers are talking to us.

And obviously, they know our brands. They see the amount of demand that we're bringing into the country. They see the amount of foreign travelers that we can bring in. And as a result, the sales calls are more successful a higher percentage of times than they were, and we have more feet on the street.

So it was, again, an investment that we had to make -- kind of an up front investment. We had to make a bet that the volume will come. And so far, the bet is working out well, but we have a lot of execution to go forward, to keep making it work.

Brian Nowak - *Nomura Securities Intl - Analyst*

Thanks.

Dara Khosrowshahi - *Expedia Inc - President and CEO*

You're welcome. Next question.

Operator

Aaron Kessler, Raymond James.

Aaron Kessler - *Raymond James - Analyst*

Hi, guys. Thanks. A couple questions.

First, on the (inaudible) in your Company eliminations -- I think that was 39% of trivago in the quarter, versus about 29% last year. Can you just talk about that increase? And are you shifting marketing spend away from other channels to trivago?

Second, if you could clarify, maybe, if you have it, the international organic FX-neutral bookings growth? Thank you.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Yes, Aaron. Thanks for the question.

The driver of the, I guess, share gains of the Expedia brands and trivago is a combination of a few factors. I'd say the primary driver is really the factor that Dara explained.

It's core execution by our businesses that enable them to do better in variable channels. And I think, if you look across a number of channels, trivago included, generally our brands -- the big brands -- are doing better and are able to take share in those channels.

You know, another factor there is, as we continue to build out our hotel base, and we add more properties, one of the first places you can see that pickup is in metasearch channels. We're able to drive traffic directly to those properties.

I think the third factor is trivago has been expanding very aggressively into the US. And as Dara mentioned in his prepared remarks, the US is their biggest market now, by revenue.

And that plays directly in to our strength. We have great brands in the US. We've got great supply, and so it enables us to do very well in that channel.

In terms of FX impact, on international gross bookings, there's about 15 percentage points. And we're not going to break out organic versus inorganic, at this point.

Aaron Kessler - *Raymond James - Analyst*

Great. Thank you.

Mark Okerstrom - *Expedia Inc - EVP, CFO*

Thanks, Aaron. Next question, please.

Operator

There are no further questions at this time. I'll turn the call back over to you, Mr. Pickerill, to close the call.

Alan Pickerill - *Expedia Inc - VP of IR*

Great. Thanks, everybody, for joining us on the call today. A replay of the call should be available shortly on the IR site.

Dara, any closing thoughts?

Dara Khosrowshahi - *Expedia Inc - President and CEO*

No. Just thank you very much, to all the Expedia Inc employees who made the first quarter happen. And we're looking forward to hosting you next quarter.

Operator

This concludes our conference. Thank you for your participation.